RALEIGH-DURHAM AIRPORT AUTHORITY
BUDGET WORK SESSION
MINUTES
March 15, 2004

Chairman Clancy presided. Present: members Gibbs; Sanders; Teer; Toler; Weeks and Zaytoun. Absent: member Winston. Also present: Airport Director Brantley; Deputy Director, Operations McElvaney; Major Capital Improvements Program Director Powell; Deputy Director, Facilities Engineering & Maintenance Pittman; Deputy Director, Finance, Business & Administration Gill; Customer Service & Organizational Support Director Damiano; Administration Director Umphrey; Finance Director Barritt; Senior Program Manager Edmondson; Program Manager Quesenberry; Program Manager Cayton; Operations Center Manager Karp; Properties & Insurance Officer Reynolds; Emergency Services Manager Thompson; Assistant Emergency Services Manager Lewis; Law Enforcement Manager Waters; Assistant Law Enforcement Manager Tippett; Communications Manager Hamlin; Communications Specialist Dunton; Business Development Officer Hairston; Information Technology Manager Schiller; Customer Relations Supervisor Harleston; Executive Assistant Mitchell and Attorney Tatum.

Guests: Gene Ossler & Ernie Clark, Worldwide Flight Services; Ginger Reynolds & Sam Willhite, The Paradies Shops; and Dan Glackin, The Hertz Corporation.

Chairman Clancy opened a Public Hearing on the drafts of the proposed FY 2004-05 Operating and Capital Budgets. No one asked to speak. Since there were no comments to be heard, the hearing was closed.

Airport Director Brantley opened the presentation of the proposed budgets for the fiscal year to begin April 1, 2004 and end March 31, 2005. The Operating Budget is an annual budget under which the authorization for expenditures expires at the end of the fiscal year and does not carry over into the succeeding year. Project budgets in the Capital Budget are cumulative budgets that do not expire but carry over from year to year as long as the project is authorized. They may be increased or decreased (so long as the funds actually spent or encumbered are less than or equal to the budget) at any time.

Fiscal Year 2003-04 has been a third consecutive difficult year due to the continuing effects of the substantial decline in business travel as a result of general economic conditions nationally and the negative impact on air travel and the airline industry of the September 11, 2001 terrorist attacks. Security requirements imposed by the Federal Aviation Administration and its successor, the Transportation Security Administration, substantially increased personnel-related operating costs following that event without any offsetting reimbursement. They also caused a significant reduction in public parking revenues during 2002 due to the surface hourly parking and part of the structural parking in the terminal area remaining closed until December 20, 2002. In addition, Midway Airlines' second and third terminations of flight operations in mid-July 2002 and the end of October 2003 and continuing substitution by several airlines of regional jets (operated by affiliated carriers) for larger mainline aircraft

during 2003 caused both a loss of available seats and a substantial reduction in the landed weight to which the landing fee applies.
The Authority's operating costs increased considerably in 2002, primarily due to the added civil aviation security requirements mandated by the federal government, particularly those requiring devotion of more law enforcement and traffic control resources to security duties. In order to comply, current staff had to be augmented by off-duty police officers and temporary personnel to assist with terminal curbside management, taxicab dispatching, inspection of parking vehicles and vehicles and personnel entering the airside secure area, patrol of the terminals and the airport perimeter, security checkpoint presence following the National Guard's departure in May 2002, and other duties. Those costs abated somewhat during 2003 as the requirement for full-time law enforcement presence at the security checkpoints was eliminated in late spring (it was restored in late September by request of and with cost reimbursement by the TSA) and the Authority ceased to dispatch the taxicabs, but were adversely impacted during the short periods in February, May and December-January that inspection of vehicles approaching the terminals was required due to elevation of the national terrorism threat level.

The reduction in parking activity permitted overflow Park & Ride Lots 2 and 5 to remain closed during the 2002 and 2003 year-end holiday seasons. The opening of Parking Garage 4 on November 19, 2003 allowed Park & Ride Lot 1 to be permanently closed, one of the three shuttle bus routes to be discontinued, and four of the 16 shuttle buses to be returned to the lessor in December, reducing the total to 12 (it is likely but not yet certain that two more buses will be eliminated the end of November 2004). Substantial contractor and staff cost also was incurred to deal with the four events of frozen precipitation January-February 2004. Utilities expenses also were greater than expected, particularly for electric power, and natural gas and motor fuel costs also have increased sharply.

Spending on capital improvements again was kept below expected outlays. In large part, however, this always is due to contractors making slower than scheduled progress on work. Three major projects were active throughout FY 2003-04 -- the construction of Parking Garage 4, the third and final phase of the North Ramp general aviation area redevelopment program, and the construction of Taxiway J. The cost of the first of these is financed by revenue bonds, while the latter two employ substantial amounts of federal Airport Improvement Program funds in addition to Authority funds. Most of that work proceeded on or relatively close to schedule. The net effect is that the year will end with continued maintenance of a strong cash position. FY 2004-05 promises to be a second very active year for construction activities, however, thus the need for financial support of capital improvements activities will be substantial.

Deputy Director Gill reported the Authority will start the fiscal year in an excellent cash position. Approximately $51 million in operating funds and reserves and $36 million in revenue bond proceeds will be on hand at the beginning of the year. Factors for forecast growth in operating revenue were discussed, and included the following: increased revenue from Terminal A fixed rents; an increase in the uplift fees from aviation fuel transiting the bulk fuel farm; more and better terminal food/beverage and retail concessions, mostly in Terminal A; revenue from janitorial services provided the airlines for cleaning their exclusive spaces; growth in cargo complex rental revenues; and increased public parking revenues. Several revenue streams are expected to decrease: flowage fees assessed on aviation fuel purchased by aircraft operators other than airlines to recover airfield costs are projected to decrease by 10%; a decrease in revenue generated by LSG Sky Chefs' catering kitchen due to the continued decline in flight catering business; a 5.4% decrease in car rental revenue is expected based on the competition and lower rates in car rental business; and a 13.7% decrease in utilities revenues due to reducing the utility rate from $6.68 to $5.37 per 100 cubic feet of flow.

Airport Director Brantley reviewed the proposed additions to, deletions from and changes in the Capital Budget. He also summarized the Budget Ordinance (whose enactment is requested by the Local Government Commission) and the Project Ordinances that accompany the Capital Budget. Deputy Director Gill briefly reviewed the calculations of Landing Fees and Terminal Rents.

The draft FY 2004-05 Operating and Capital Budgets were recommended for adoption and will be brought before the Authority for consideration at its regular meeting on March 18, 2004.